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Budget and Beliefs: The Future of EMU Integration

How public opinion can drive economic policy decisions about the Eurozone

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Abstract: This paper documents the lack of real and cyclical convergence after the Euro adoption to argue that more coordination (risk-reduction) and/or more centralization (risk-sharing) would be needed to improve the functioning of the Economic and Monetary Union. By relying on individual-level data from the Eurobarometer, we shed light on the drivers of support for each of these two avenues. We show that, though socioeconomic status does play a role, political values and subjective perspectives are the main determinants of support for integration at the individual level. At a macro level, countries with higher unemployment rate call for both risk-reduction and risk-sharing.

Keywords: Convergence; European integration; public opinion, Eurozone budget.

1. Introduction

Convergence in the European Union (EU) has always been considered the crucial precondition in order to achieve socio-economic cohesion, as deliberately formulated in Article 130a of the Single European Act (1986). Beyond political motivations[1], the common currency was expected to accelerate this path, allowing for lower interest rates for the poorest countries, eliminating exchange rate uncertainty, as well as facilitating capital mobility to Member States with low capital-to-output ratio (Gros, 2018).

However, it is a common feeling that expectations did not meet reality. The ex-ante criteria to access the single currency area were based on nominal convergence. The idea that economies would become more similar fell short of expectations. Although some real and nominal convergence took place, recent evidence points towards growing divergence within the

[1] After the reunification, the German Mark was consolidating itself as a strong currency, meaning it could represent a substantial political clout over the other European countries in the absence of a European Monetary Union (EMU). This created an additional incentive to push forward the idea of the EMU, especially to countries that were fearing the rise of German influence. Therefore, the single currency emerged not only as an economic matter but also as a political intention to administer Germany's political influence.

Eurozone (Diaz del Hoyo et al., 2017; Creel, J., 2018; Franks et al., 2018). In addition, cyclical convergence did not materialize to the expected degree. Even with the business cycles becoming more synchronized over the last years, their amplitude still differs substantially across countries of the Eurozone. This result is particularly worrisome, as it is a necessary condition for a common currency, with a single monetary policy, to function properly.

Since then, constant debates are raising regarding what led countries to take such a diverse path. Some authors argue that, given the constraints imposed by the single currency on national actions, risk-sharing mechanisms are critical to allow individual countries to prosper (Allard et al. 2013). In this context, in 2017 the European Commission proposed the creation of a Reform Support Programme and a European Investment Stabilisation Function (EISF), as part of their agenda to deepen the Economic and Monetary Union (EMU) and firmly anchor the Euro Area into a long-term budget. The first would provide financial and technical support for Member States pursuing growth-enhancing structural reforms at the national level, while the second would provide fiscal assistance to any country facing an exceptional and deep crisis. This way, countries could maintain a high level of public investment during crisis.

Figure 1 - More decisions should be taken at EU level

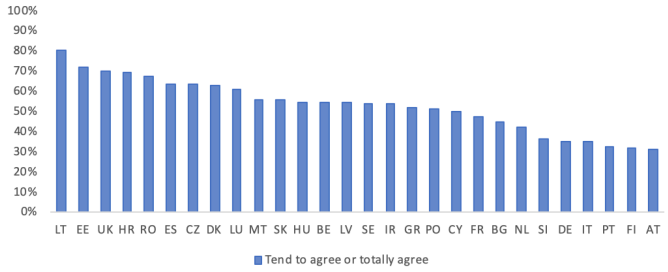


Figure 2 - Should there be more coordination among EA governments?

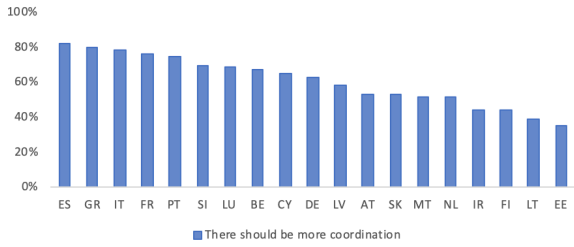
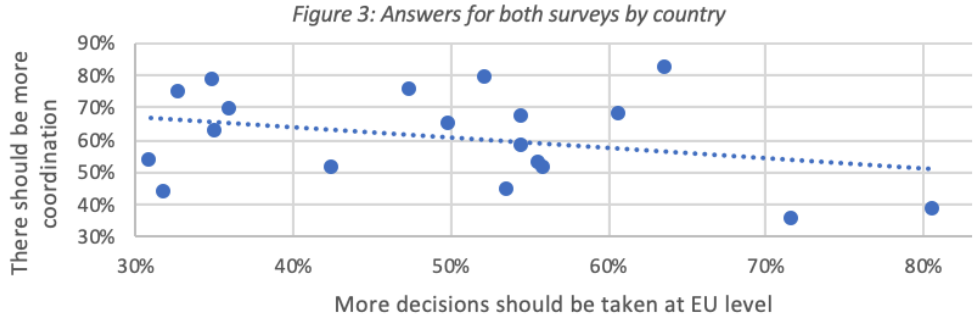


Figure 3: Answers for both surveys by country



Source: Special Eurobarometer 486; Flash Eurobarometer 473.

However, even if modest in nature, these proposals received the opposition of several Member States in the European Council, especially from Dutch and German representatives who call for additional risk-reduction in individual Members before the development of any risk-sharing mechanisms. These countries oppose what they label as "transfers union".

Different levels of overall support for more integration are shown in Figures 1 and 2, respectively. The first question examines whether the interviewed agrees with transferring more decision power to the EU (usually identified in the literature with risk-sharing), while the second refers to whether countries should coordinate more their policies (labeled in the literature as risk-reduction). Figure 3 compares the countries that answered both questions (namely the countries from the Eurozone). The negative trend line points that countries asking for more risk-reduction are relatively more reluctant towards risk-sharing.

Considering the evidence which shows that political decisions reflect the wishes of the respective constituencies (Hakhverdian, 2012), we disentangle within-country individual-level heterogeneity from country-level factors to understand why countries have a preference for one avenue or the other. Our final goal is to provide insights on how to move forward with EMU integration in a sustained way, being it via risk-reduction or risk-mitigation.

The text is organized as follows: In Section 2 we present our own quantitative evidence on the convergence results, relating it to the existing outcomes in the literature; Section 3 reviews some proposals put forward on how to address shortcomings in the context of the EMU economic governance, as well as the current approach of the European Commission, and describe the political hurdles that followed; Section 4 presents the data and the model used in this paper to understand the within and across countries differences in the support for further integration and Section 5 discusses the results. Finally, Section 6 concludes and presents the way forward.

2. Setting the scene: the (lack of) convergence

The concept of economic convergence can be assessed throughout multiple dimensions. In this section, we define two[2] of them (real and cyclical convergence) and provide our own evidence on the developments in recent years, relating them with the main results in the literature.

The concept of real convergence predicts that countries with lower GDP per capita will close in towards States with higher ones (Creel, J., 2018). In theory, poorer countries with higher returns on capital would show stronger growth, fostered by a faster capital accumulation process. This theme has been subject to examination in several studies such as ECB (2015), Franks et al. (2018), Merler (2015) and Diaz del Hoyo et al. (2017), focusing on the two most well-known concepts to measure real convergence. The first one is the β-convergence, which is the tendency of poorer economies to grow faster than rich ones, while the second one, σ-convergence, refers to the reduction of income dispersion across countries.

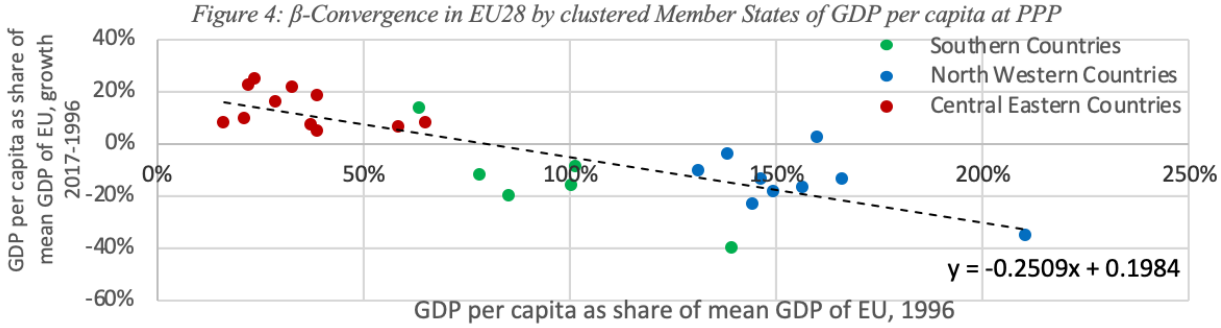
In order to assess whether β-convergence took place, we use series of GDP per-capita (from 1996 to 2017) to measure, for each country, the relationship between its GDP growth rate (relative to EU growth), and its initial GDP per-capita (relative to the EU average) (see Figure 4)[3]. Our computations resulted in a negatively sloped trend line (β=-.25), which hints that most of the Member States starting with a lower relative GDP per-capita experienced a larger positive change in terms of individual income level, compared to richer countries, thus supporting the hypothesis of β-convergence. Albeit the theory points to a different prediction, Figure 4 shows

[2] The third one would be nominal convergence, which relates to the nominal aspects of an economy, such as public expenditure, inflation and interest rates (long term). Nominal convergence takes place when those indexes co-move and are similar across countries (Creel, 2018). The benchmark for nominal convergence was established by the Maastricht criteria, which has been proven to be insufficient for countries to positively develop in the Eurozone (Darvas, 2019). Empirical analysis has revealed that, besides Germany and France, all other members of the Eurozone have not met the price stability criteria (Diaz del Hoyo et al., 2017). Inflation rates differences were also persistent, while deviations of long run interest rates were rather sporadic (Franks et al., 2018).

[3] We exclude Luxemburg and Ireland from this analysis since their GDP values are distorted by large offshore financial centres. They are also excluded from the EA 12, EU15 and Eurozone in figures 5 and 6.

that most of the Southern countries have systematically underperformed and deteriorated their position. Some of the new Eastern Member States managed to narrow their gap to the EU average in terms of GDP per capita, while most of the oldest EU presented a slowdown on growth, meaning that their distance from more advanced economies remained substantial.

Figure 4: β-Convergence in EU28 by clustered Member States of GDP per capita at PPP



Source: Author's calculation using WDI database from 1996 to 2017

When we use the same approach to compare the convergence path of the first 12 members of the Euro Area (EA12), our computations show a substantially lower absolute value of Beta (-.04) (see Figure 5). This result means that some of the lower-income countries have either not reduced or have even increased their income gaps in comparison with the average of the EA12. In other words, the coefficient of convergence among the early adopters of the Euro is almost null. This set up goes hand in hand with the results presented by Diaz del Hoyo et al. (2017), observing a clear heterogeneity across countries in the pace of growth, especially between Eastern and Southern countries, as well as within the early Euro adopters.

Figure 5: β-Convergence in EA12 of GDP per capita at PPP

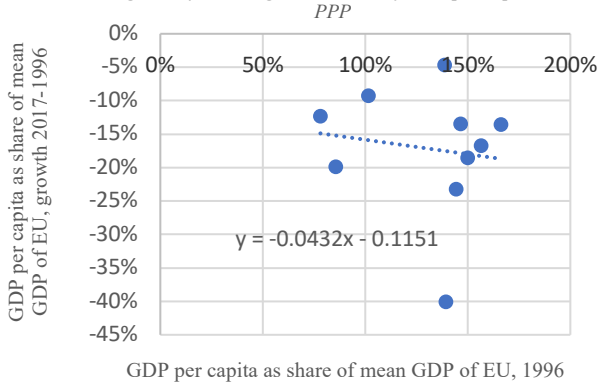
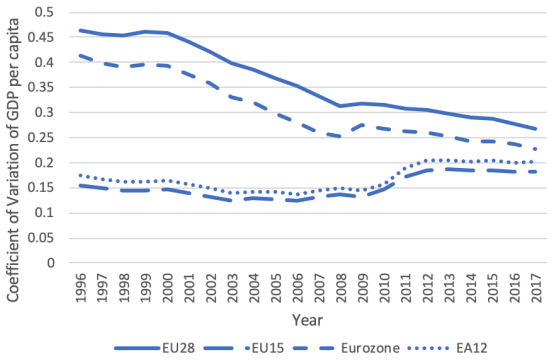


Figure 6: Sigma Convergence



Source: Author's calculation using WDI database from 1996 to 2017

Turning to our measurements regarding the σ-convergence dimension, Figure 6 shows that the overall dispersion of GDP per-capita between all the Members experienced a decrease within the EU, with a considerable interruption only during the years of the crisis. However, it is possible to observe that the same process did not occur within the first 12 members of the Euro Area. Instead, it has actually taken steps back after the financial crises took place, resulting in an increase in the coefficient of variation that did not yet go back to previous levels. These results are in line with the ones presented by Gros (2018), where the trends of the EA12 and the EU15 (which are the first 15 members of the Union) move closely side by side, while the Eurozone line has a parallel path with the EU28.

The fallouts from the real convergence analysis are important to assess whether the goals of the EU and of the EMU, such as income levels and living standards convergence, are being achieved. However, real convergence is not vital for a well operative monetary union (Dolls et al., 2018). Instead, cyclical convergence is considered a critical factor for an effective joint monetary policy (van Loon, 2018), which arises when countries' business cycles synchronize. The theory of Optimum Currency Area (OCA) sets out that desynchronized cycles jeopardize a well-targeted monetary policy, as some Member States will be better off with a less constrained monetary policy than others (Mundell, 1961).

Figure 7: Business Cycle Correlations Over Time

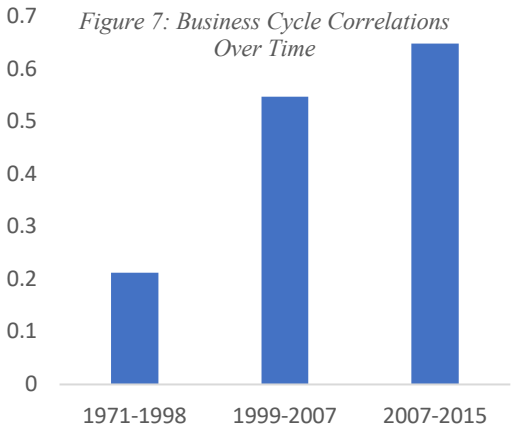
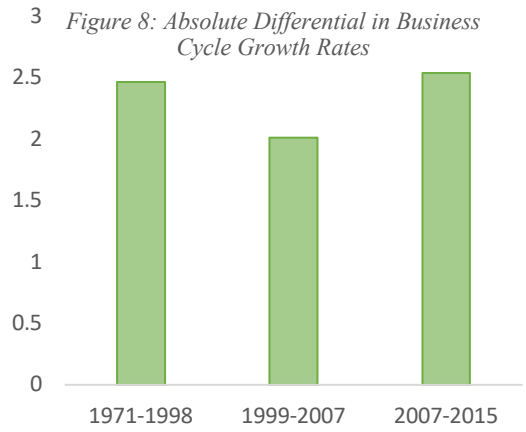


Figure 8: Absolute Differential in Business Cycle Growth Rates



Source: Author's calculation using OECD database from 1971 to 2015

In order to assess cyclical convergence, we calculated the average bilateral correlations of business cycles of the Euro Area countries, throughout time. Considering that the higher the correlation between the cycles, the higher the level of synchronization, Figure 7 shows that there was indeed substantial progress throughout the last decades. However, if we turn our attention to the differential in business cycle growth rates, it is possible to observe through Figure 8 that the amplitude of the cycles' fluctuations has diverged. Considering that full synchronization would occur if the average differential was zero, one can see that the process of convergence suffered a strong setback after the crisis took place. The results we found indicate that even if the business cycles have increased their synchronization during the advent of the monetary union, the amplitude of the fluctuations have not taken the same path.

Looking at the recent findings surrounding cyclical convergence, one might also find mixed evidence about its degree in the EMU. De Grauwe & Ji (2016) find that the average bilateral concordance statistics of business cycles is higher among countries within the Eurozone than across other countries. Alternately, no substantial increase in business cycle synchronization is measured by Enderlein et al. (2016) since the start of EMU. Franks et al. (2018) find different results from the latter, insisting that business cycles across the Eurozone are improving in synchronization, but with the dispersion between growth rates also increasing across countries. While the increase in synchronization is welcome, the increase in the dispersion of amplitudes – with some countries experiencing more severe crises – harms the effectiveness of the single monetary policy of the European Central Bank (ECB) (Creel, 2018).

3. Improving the functioning of the EMU: risk-reduction and risk-sharing

Notwithstanding whether the poor performance on real convergence and the differences in the business cycles amplitude among the EA12 has roots in the common currency, it is a fact that these countries are suffering from a lack of tools to deal with (asymmetric) downturns. Inside

a common currency area, macroeconomic liabilities (e.g. indebtedness and fragile banks' balance-sheets) can matter even more than outside of it, since members are deprived from one of the main traditional tools to cope with a negative shock: devaluation. Without independent an exchange rate and monetary policy, countries need to adjust wages and prices whenever the currency is overvalued (Darvas, 2019), which can cause perverse social consequences.

The common interest rate, set out by the ECB, might be too high for countries in downturns, adding a pro-cyclical ingredient to the mixture. Should a more severe stoppage in economic growth occur in the EMU, the capacity of domestic fiscal policies to smooth its effect in the Euro Area is restricted. Countries that have fiscal space are not willing to resort to it, and countries that are willing to do not have much fiscal space because they generally already hold high levels of debt. In this scenario, since monetary policy alone does not have sufficient tools to reverse the picture, there would be a need for greater coordination with fiscal policies to leverage growth on the continent. This is because, even if the ECB has some room for further action within its instruments, its toolkit does not go further.

In the pursuit of a better functioning EMU, its main shortcomings should be addressed. In this regard, a key issue relates to economic governance. Throughout the years, European institutions gave preference to domestic fiscal restraints to the detriment of a large cross-border fiscal mechanism that could play a role in macro stabilization (Creel, 2018). The Stability and Growth Pact (SPG), the no-bailout rule and the Fiscal Compact represent intergovernmental policies that regulated "healthy" public finances, establishing limits on public debt. However, there is no consensus in the literature regarding the optimal level of debt that would be clearly suitable to a steady-state economy (Creel & Saraceno 2010). In addition, the concept of establishing the same restrictions for all countries – the one-size-fits-all approach – overlooks the characteristics

that vary across them. Variables such as infrastructure or the demographic factors are specifications that should be considered in any evaluation of public deficit sustainability.

The layers of complexity and the inflexibility of these fiscal rules, together with the lack of credibility and enforceability, made the perfect combination for them not to be completely respected. Attinasi & Metelli (2017) argue that, even with such strict austerity rules, public debt ratios have not declined, while economic growth has reduced. Also, fiscal rules force countries to engage in fiscal consolidation during downturns but not to build enough fiscal cushions during periods of flourishing economy, exacerbating procyclicality and producing significant economic and social consequences (Gouveia, 2017). As a result, this set up did not succeed in reducing risk across EU countries as expected. Thus, there is a need for a more robust fiscal governance framework that can push national policies toward a more austere path.

In this context, several authors have examined how to address these shortcomings in risk-reduction. Franks et al. (2008) observe the complexity of the current set up and argue that, given the differences in the amplitude of business cycles, the single currency area should be strengthened by policies that provide flexible economic structures. They propose that common fiscal rules should foster flexibility, transparency, and symmetry, promoting wiser domestic fiscal policies. Enderlein et al. (2016) argue about the fact that no country has ever been fined due to excessive deficit and that the agreed maximum deficit limit is based on aggregate indicators. Instead, according to the authors, efforts towards reforms, the quality of the fiscal budget and the position of the economy in the business cycle need to be taken into account when evaluating deficits. Bénassy-Quéré et al. (2018) suggest that countries that reached the boundaries imposed by the SGP should finance new debt with junior debt. The higher yield on junior than on senior debt would encourage fiscal discipline, creating better stabilization properties than the current set up, as well as room for additional spending during downturns.

Indeed, a more flexible and clearer *ex ante* approach toward fiscal regulation within countries in the EMU area would further strengthen its architecture. Nevertheless, even with the implementation of these suggestions, there is need for further incentives in order to guarantee a robust fiscal discipline and ensure the EMU framework to be adequate enough when its countries are facing the social and economic costs of a severe crisis (Gouveia, 2017). In this regard, a minimum risk-sharing mechanism that could diminish the spillover effects of sovereign financial distress should be implemented, preventing countries experiencing asymmetric crises from being deprived of essential government services. Under such arrangement, asymmetric shocks would then be less likely to damage the economies of other members of the EA, alleviating the need for *ex post* financial support and hence making the no-bailout clause more credible (Allard et al., 2013).

In this background, the European Commission (EC) proposed the creation of a Reform Support Programme and of a European Investment Stabilisation Function (EISF). According to the Commission, the EISF would work as a back-to-back operation, with Members applying for a loan at a zero percent interest rate. In order to do so, the EC would create a Stabilisation Support Fund with transfers from Members' national budgets in order to subsidize the interest payments on behalf of the Member State in need. Differently from the European Stability Mechanism (ESM), the Commission would be taking over and calling all the decisions, which could speed up decision making as compared to what happened during the debt crisis.

Alternatively, other proposals to increase risk-sharing were presented by scholars throughout the last decade. For instance, Dolls et al. (2014) analyze different options for the design of a common unemployment insurance, discussing its redistributive and stabilizing properties. Dullien (2013) adds that establishing such a scheme would be possible with no permanent financial transfers between countries, but, at the same time, with all members to benefit from

the perks of stabilization. Allard et al. (2013) argue that if the risk-sharing mechanism had been in place over the last thirty years, net beneficiaries would have varied greatly throughout time.

The idea of a Eurozone budget was lastly discussed in June of 2019 by the Eurogroup, which agreed on the principles of a Budgetary Instrument for Convergence and Competitiveness (BICC) for the Eurozone. However, there has been only an overall agreement, while questions regarding financing and size are still aside. There have also been very different perceptions about the function that the budget should have. Countries like Spain and France are committed to establishing a full stabilization function with an anti-shock functionality allowing transfers of wealth in case deep asymmetric shocks occur. Meanwhile, some Northern countries, such as Germany and the Netherlands, wish to maintain the budget limited to promote only structural reforms. There is a strong pressure against the expansion of the sources of revenues beyond the Multiannual Financial Framework. Such restriction would make any stabilization function unfeasible. After the Eurogroup meeting last June, the Dutch PM made a statement stressing that the agreement was solely made to promote risk-reduction across the EMU. He reinforced that any hypothesis of promoting risk-sharing across economies was still unacceptable for the moment, casting serious doubt on the future of the Commission's EISF proposal.

Nevertheless, there is substantial consensus among economists that deepening the EMU would be beneficial for both the Euro Area and the EU as a whole. Not only a more coordinated, but also a more integrated Euro area would bring further stability and prosperity to all Members in the EU (European Commission, 2018). Under the scenario where, first, risk-reduction gaps are addressed, and only then risk-sharing mechanisms are advanced, the EMU would remain vulnerable to shocks for a long period of time. In a situation where national policies are not integrated enough, the discussion among solutions might be postponed only until the pressure

of a new crisis hits. In turn, such debate would result in an inefficient outcome that would possibly reduce overall support for the EU and the Euro.

New proposals for risk-sharing are published every year, with different theoretical frameworks but an identical goal: the improvement of economic and social cohesion. Still, they fail to convince all governments about the importance of the matter, raising questions on what is missing to achieve such wider acceptance. Perhaps, the question that should be asked is what the factors that shape governments' preferences about EMU reforms are. Even if the support for the Euro is at its high record, reaching 74% of respondents across the Eurozone (Flash Eurobarometer 473), scholars still do not know how much constituencies would support further Euro Area reforms. A more solid comprehension of preference formation is central to deepening our understanding of the logics and mechanisms of European economic governance (Târlea et al., 2019). Exploring the heterogeneity within the preferences of Europeans towards the future can help us discover the factors that led governments to adopt certain positions.

4. Empirical strategy

In this section, we aim at understanding what drives the differences across EU countries in support for more integration, via risk-sharing and/or via risk-reduction. After providing a literature review on the main determinants discussed in the existing research, we present the two-stage regression model adopted and the data used.

a. Literature review

Many studies have explored the support for European integration under the so-called utilitarian perspective, which is determined by a rational cost-benefit analysis (Gabel, 1998). The same approach is also used to explain support for the EMU, since the Euro can favour agents involved

in international trade (Banducci et al. 2009; Gabel 1999). As one would expect, economic concerns are of primary importance in shaping individual preferences for further integration.

However, the concept of belonging to a certain group of interest has also been assessed as a powerful driver (Hooghe & Marks, 2004). This belief is linked to the social identity theory proposed by Tajfel (1979) which states that belonging to a cluster, such as nation, social class or age range, may form a sense of social loyalty that oversees any development of rational faculties. These affinities can possibly shape views towards political subjects and thus drive public opinion toward a specific direction (Hobolt 2014). Europeans are nowadays more engaged in European level politics decisions than before, especially since the Eurozone crisis took place (Hooghe & Marks, 2009). The advent of the internet and social media made it easier to organize public manifestation. In that sense, public opinion is each time more salient to politicians (Hakhverdian, 2012), which rises incentives to shape their preferences, fearing they will be punished in the polls otherwise.

If the magnitude of the effect that public opinion exerts on European policy decisions is still under debate, the concept of its existence seems to be a consensus. Some studies, such as Hakhverdian (2012) and Bølstad (2015), have already assessed the ability (and the intensity) of public opinion on forecasting European policy path. It was also concluded that this casual influence takes place both on core and peripheral Member States (Bølstad, 2015). Some studies have also concentrated on the support for the EU enlargement (Hobolt 2014) and on the single currency (Hobolt & Wratil 2015).

Although most studies assess support for integration in a broad-spectrum, some of them evaluate public opinion specifically on risk-mitigation (Kalbhenn & Stracca, 2015) and risk-sharing (Kuhn, & Stoeckel, 2014). Boyle & Hasselmann (2014) explored public support for the Stability and Growth Pact and the EU regulations on the financial sector (i.e. risk-reduction) as

well as the Greek financial rescue and the European Stability Mechanism (i.e. risk-sharing). They state that, besides accounting for overall acceptance, countries must also be responsive to economic elites and group of interests regarding either risk-reduction or risk-sharing.

Regarding individuals' socio-economic characteristics, one should expect young individuals to feel more positive towards integration, not only because they were not old enough to experience the transition to the Euro, but also because modern education systems are often associated with more liberal views (Fetzer, 2000). Furthermore, male individuals are keener to support extreme right ideologies, which are historically not fond of delegating power to supranational authorities (Givens, 2004). Poorer rural regions tend to be enthusiastic with more centralizing policies that increase redistribution, whereas prosperous big cities tend not to share the same feeling (Bolton and Roland, 1997). Not surprisingly, education and occupation have been found to affect public support, with more educated and wealthier individuals tending to be in favour of integration (Gabel, 1998). Low levels of education normally constrain job opportunities, thus, making people more susceptible to significant rises on labour supply (Hooghe, 2003).

Political views of the Europeans and their effects were also analysed by several authors. As pointed by Hooghe et al. (2002), political parties that identify themselves as peripheral (extreme left or right) are usually more Euro-sceptical than parties toward the centre. It has also been found that the more frequently a person discusses political matters, the more likely it is that he will support integration (Gabel, 1998). Finally, individual perspectives also influence public opinion on European integration: not only how much confident citizens are about the future (either personally or for their nation) (Hooghe & Marks, 2004), but also how much their interests are taken into account by current institutions (Rohrschneider, 2002).

When dealing with individual-level information, we should bear in mind that these citizens are nested within the several Member States, each with different characteristics such as socio-

economic institutions, labour market structures and demographic configuration. These differences, distinct from outcomes associated with specificities across individuals themselves, may also interfere in how respondents react to the several supranational policy issues. For instance, some countries, due to their political histories, may perceive further coordination or interferences in domestic policies as a threat to sovereignty (Luedtke, 2005). Banducci et al. (2009) assessed that citizens in countries that benefit economically, or are perceived to benefit economically, from membership in the EU are more supportive of the Euro. In addition, differences in GDP per capita may also play a role. Member States preferences on proposed EU measures are expected to vary according to whether these countries consider themselves as net contributors or net beneficiaries of proposed EU funds and regulations. Wealthiest countries may be less favourable to the expansion of the Eurozone budget since they ponder that they will benefit less from it. Besides that, the EMU incorporates different governmental institutions with different systems of economic coordination (e.g. liberal, social democratic, Christian democratic) and with ideologies varying from market liberalism to regulated capitalism, which in turn can also interfere on citizens' feelings concerning integration (Hooghe & Marks, 2005). Finally, unobservable time-invariant country characteristics, such as culture and history, can affect responses but are not captured by available measures.

b. Model

In order to model differences in outcomes within and between countries, we use a two-stages regression model. First, we run a regression to estimate the individual-level parameters with a country fixed effects model:

$$y_{ic} = X_{ic}\beta + v_c + \varepsilon_{ic}, with\ i = 1, \dots, N_c;\ c = 1, \dots, C \quad (1)$$

Here we are measuring within-country variation, where y_{ic} is the answer for our question of interest of individual *i* from country *c*, β is the within estimator with country *c* as cluster; X_{ic} is

a vector of characteristics of individual *i* from country *c*; v_c is the fixed effect for country *c* that combines both observed and unobserved country characteristics and ε_{ic} are the unobserved individual effects. Subsequently, we run an OLS regression on country fixed effects estimated using regression (1):

$$\hat{v}_c = \alpha + Z_c\gamma + \eta_c, with\ c = 1, \dots, C \quad (2)$$

Where Z_c are country-level characteristics; η_c is a residual error term. The predicted country-specific fixed effect $\hat{v}_c$ derives from the estimation of $\hat{v}_c = \bar{y}_c - \bar{X}_c\hat{\beta}$, where the bars denote the averages taken over all individuals within a country.

The estimation on the second step is based on only C observations (28 for the first survey and 19 for the second one), notwithstanding how many individual-level observations (N_c) there are in the first step. Such a small number of observations has several implications. For instance, the country-level parameters (γ) and the variance of the country-specific effects are expected to be estimated imprecisely. In addition, the asymptotically normal distribution assumption of η_c becomes preposterous, which jeopardizes hypothesis testing of the country-level parameters.

c. Data

To understand what drives the differences across EU countries in support for more risk-sharing and/or risk-reduction, we rely on two Eurobarometer (EB) surveys. For each one of them, we withdraw one dependent variable.

The first survey is the Special Eurobarometer 486, which covers all 28 countries in the European Union in 2019. From this survey, we draw our dependent variable to assess support for risk-sharing, which is the answer to the following question: "To what extent do you agree or disagree with the following statement: More decisions should be taken at EU level". We code this question as a dummy variable that assumes value one if the interviewed answered

"Tend to Agree" or "Totally Agree", and zero otherwise. Further responsibility at the supranational level would imply advancing towards a more risk-sharing EMU.

On the other hand, greater fiscal policy coordination at the national level would allow EMU countries to tackle overall risk mitigation. Beyond assessing preferences toward more decisions at the EU level, then, we also explore preferences regarding more fiscal coordination across countries. We thus analyze the Flash Eurobarometer 473, which covered all 19 countries in the Eurozone in 2018. From this survey, we draw our dependent variable to assess support for risk-reduction. The question we analyze is: "Do you think that the degree to which economic policy, including budgetary policies, is coordinated in the Euro area is appropriate? Should there be more or less coordination among euro area governments?". We coded this question as a dummy variable that assumes value one if the interviewed answered "there should be more coordination" and zero otherwise.

For the first survey, we use several independent variables that characterize common aspects of social identities, the so-called demographic controls, such as generation (age), residency (type of community) and gender. We also add the level of education, measured in years of study, to provide a proxy for the level of work skills. Since we expect work experience to be related to social classes, we also add a self-assessment social class variable. Accordingly, we assess the impact of unemployment on individuals' preferences, as we would expect people that are struggling to find a job to feel threatened by labour mobility originated from further integration.

Moving on to the political values, we analyse the impact of (1) having a positive or negative view over the EU, (2) of being engaged in political matters, (3) of supporting extreme parties and (4) of not trusting institutions such as media and political parties. Since it has been found that outcomes significantly depend on the subjective perspective of citizens, we also assess the so-called democratic deficit. Democratic deficit refers to the perception of ordinary citizens that

the political institutions of their countries, as well as the decision-making procedures, are inaccessible to them. We assume that, most likely, people that feel left out from national institutions at the status quo would be more resistant to further integration of European bodies too. Finally, we add whether the interviewed is optimistic about the future of the EU, and whether he has had a hard time paying his bills in the last year, since we would expect this last answer to shape his perspective on whether he will struggle again in the near future.

The second survey is not as rich in variables as the first one. Besides individuals' socioeconomic characteristics for the base model, we add subjective perspectives of the individuals. We include, for instance, if the respondent thinks that having a common currency is a "good thing" for his country and whether he believes that economic policy coordination among the Eurozone has been strengthened in recent years. The goal behind this last question is to assess whether individuals who think that coordination has recently been strengthened may be either resistant to further policy integration or, alternatively, think that coordination has not yet reached its optimal level. In addition, we also evaluate whether the person believes there is a need for significant national reforms to improve the performance of the national economy and if he agrees that governments need to save more today in order to prepare public finances for the aging of the population. We use these answers as proxies for the utilitarian perspective on integration and to model how respondents value fiscal discipline.

For the second-step regressions, we use independent variables withdrawn from the Eurostat. The macroeconomic characteristics we have chosen are the average unemployment rate over the last six year, the level of GDP as a percentage of the whole EU, the amount of exports as a percentage of the GDP, and the size of the population as a percentage of the whole EU.

Table 1 shows the means of individual-level variables, averaged over the non-missing responses for each survey. They are presented separately for both values of the dependent

variables, along with the t-statistics for the null hypothesis that the means for each value are equal. Table 2 displays summary statistics of the macro data use for the second-step regressions.

Table 1- Means of Individual-level Variables

Survey 1 - More decisions should be taken at EU level:				Survey 2 - Should there be more coordination among EA governments?:			
Variable	Tend to agree or totally agree	Tend to disagree or totally disagree	t	Variable	There should be more coordination	The degree of coordination is	t
1. Social Identities:				***1. Social Identities:***			
a.Age	49.9710 (0.151)	54.115 (0.156)	19.010	a.Age	54.050 (0.164)	55.505 (0.215)	5.433
b. Gender	0.538 (0.004)	0.555 (0.004)	2.808	b. Gender	0.521 (0.004)	0.590 (0.005)	9.005
c. Years of Education	0.9845 (0.005)	0.922 (0.006)	-7.190	c. Years of Education	0.630 (0.004)	0.577 (0.005)	-6.940
d. Unemployed	0.462 (0.004)	0.516 (0.004)	8.890	d. Unemployed	0.480 (0.004)	0.521 (0.006)	5.226
e. Rural Area	0.331 (0.003)	0.344 (0.004)	2.160	e. Rural Area	0.325 (0.004)	0.344 (0.005)	2.541
f. Low Class (self-assessed)	0.401 (0.004)	0.466 (0.004)	10.600				
2. Political View:				***2. Political View:***			
a. Image of the EU	1.167 (0.007)	0.819 (0.007)	-32.266	a. Having the euro is a good for my country	0.216 (0.004)	0.239 (0.005)	3.446
b. Interest in EU political matters	0.612 (0.006)	0.618 (0.006)	0.696	b. Coordination in recent years have increased	0.903 (0.007)	0.989 (0.012)	6.322
c. Extreme right/left placement	0.189 (0.003)	0.171 (0.003)	-3.559	c. Governments need to save more today in order to prepare public finances for the ageing of the population	0.862 (0.003)	0.796 (0.005)	-11.157
d. Do not trust the media	0.506 (0.004)	0.584 (0.004)	12.574				
e. Do not trust political parties	0.756 (0.003)	0.817 (0.003)	11.966				
3. Personal interests:							
a. Optimistic about the Future of the EU	0.743 (0.003)	0.495 (0.004)	-42.867				
b. Hard time paying bills last year	0.320 (0.003)	0.321 (0.004)	0.133	d. There is a need for significant reforms to improve the performance of our economy	0.833 (0.003)	0.820 (0.004)	-2.123
c. My interests are not taken into account	0.451 (0.005)	0.542 (0.005)	11.867				

Robust standard errors in parentheses *Source: Author's calculation using Eurobarometer*

Table 2- Summary Statistics of Country-level Variables

	More decisions at EU level					More coordination among EA governments				
Variable	Obs	Mean	Std. Dev.	Min	Max	Obs	Mean	Std. Dev.	Min	Max
GDP per capita as percentage of the whole EU	28	1.0	0.6	0.2	3.0	19	1.1	0.6	0.4	3.0
Average Unemployment Rate (2013-2018)	28	9.0	4.6	4.4	23.9	19	9.9	5.1	4.4	23.9
Exports as a percentage of GDP (2018)	28	69.2	39.2	30.0	211.6	19	75.3	45.3	31.3	211.6
Population as percentage of the whole EU (2018)	28	3.8	4.6	0.1	16.2	19	3.8	5.0	0.1	16.2

Source: Author's calculation using the Eurostat

5. Results

a. Individual-level effects: risk-sharing

Table 3 displays the outcomes for both surveys. In the first model (column i), support increases with income, since individuals that identify themselves as working-class and lower middle class are more reluctant to more decisions at EU level in comparison with respondents from higher classes. Support also increases with the level of human capital: on average, more educated interviewed are more supportive of integration than less-educated respondents. Further risk-sharing also finds additional support around new generations (age below 30) and in more urbanized areas. Instead, being unemployed has a negative effect on support for risk-sharing.

When introducing variables related to political views (column ii), one notices how these have a stronger effect on individuals' answers in comparison with the social identities previously analysed. Not surprisingly, citizens who have a positive view of the EU are keener to support progress on risk-sharing in comparison with the ones with a negative view. In addition, support is positively related to how frequent the person is interested in EU political matters. The lack of trust in institutions, such as media and parties, points against preferences for further risk-sharing. When adding subjective evaluations of the interviewed (column iii), extreme political positioning displays a positive effect, which could mean that Euroscepticism is not as exclusive to extremism as before. Optimism about the future of the EU display a positive effect, while having a hard time paying bills does not exhibit an impact on support for further integration. Finally, the democratic-deficit effect reveals to be present, since people who do not feel represented are on average also less likely to be in favour of more decisions taken at EU level.

b. Individual-level effects: risk-reduction

In the second survey, we notice that social identities play a role similar to what seen in survey 1. The only different effect is given by the dummy for people older than 54 years old since in the fourth model (column iv) the variable shows a positive impact on supporting further coordination among Euro Area governments. As theorized in the previous section, respondents who consider that coordination has been weakened (strengthened) reveal to have a more positive (negative) view toward further coordination. These effects reveal that, while some individuals consider the level of coordination not to have reached its optimal level yet, respondents who believe coordination has previously been strengthened enough see further risk-reduction measures as possibly detrimental. In addition, possessing a positive view over the Euro has a positive impact on approving further risk-reduction, just as, in survey 1, having a positive view on the EU has a positive effect on supporting more decisions to be taken at the EU level. Awareness about the importance of governments to save also has a positive effect.

Table 3-Within Effects

Survey 1 - More decisions should be taken at EU level:				Survey 2 - Should there be more coordination among EA governments?			
VARIABLES	*(i)*	*(ii)*	*(iii)*	VARIABLES	(iv)	(v)	(vi)
1. Social Identities:				***1. Social Identities:***			
Age<30 (Ref. 30<=Age<=54)	*0.059****	*0.059****	*0.066****	*Age<30 (Ref. 30<=Age<=54)*	*-0.012*	*-0.000*	*-0.001*
	(0.012)	*(0.013)*	*(0.014)*		*(0.016)*	*(0.019)*	*(0.019)*
Age>54 (Ref. 30<=Age<=54)	*-0.039****	*-0.041****	*-0.028***	*Age>54 (Ref. 30<=Age<=54)*	*0.023***	*0.026***	*0.026***
	(0.011)	*(0.011)*	*(0.014)*		*(0.011)*	*(0.011)*	*(0.011)*
Female	*-0.016***	*-0.010*	*0.001*	*Female*	*-0.058****	*-0.041****	*-0.040****
	(0.007)	*(0.008)*	*(0.008)*		*(0.009)*	*(0.010)*	*(0.010)*
18<=Years of education<=23 (Ref. 18>Years of education)	*0.024**	*-0.005*	*-0.017*	*18<=Years of education<=23 (Ref. 18>Years of education)*	*0.071****	*0.040***	*0.033**
	(0.014)	*(0.013)*	*(0.013)*		*(0.017)*	*(0.018)*	*(0.017)*
23<Years of education (Ref. 18>Years of education)	*0.035***	*-0.012*	*-0.027*	*23<Years of education (Ref. 18>Years of education)*	*0.080****	*0.056****	*0.049***
	(0.016)	*(0.017)*	*(0.020)*		*(0.019)*	*(0.018)*	*(0.017)*
Unemployed	*-0.019**	*-0.001*	*0.006*	*Unemployed*	*-0.031****	*-0.017**	*-0.012*
	(0.010)	*(0.009)*	*(0.011)*		*(0.010)*	*(0.009)*	*(0.010)*
Rural Area (Ref. Large, middle sized or small town)	*-0.028***	*-0.018*	*-0.018*	*Rural Area (Ref. Large, middle sized or small town)*	*0.005*	*0.002*	*0.002*
	(0.011)	*(0.011)*	*(0.013)*		*(0.011)*	*(0.011)*	*(0.010)*
Working class and lower middle class (Ref. Middle, upper middle and higher class)	*-0.066****	*-0.023***	*-0.018*				
	(0.010)	*(0.009)*	*(0.012)*				
2. Political View:				***2. Political View:***			
Negative View of the EU (Ref. Neutral View of the EU)		*-0.171****	*-0.114****				
		(0.017)	*(0.018)*	*Coordination has been weakened (Ref. has not changed)*		*0.076****	*0.076****
Positive View of the EU (Ref. Neutral View of the EU)		*0.194****	*0.125****			*(0.013)*	*(0.014)*
		(0.014)	*(0.015)*	*Coordination has been strengthened (Ref. has not changed)*		*-0.083****	*-0.083****
Never interested on EU political matters (Ref. Occasionally)		*-0.038***	*-0.018*			*(0.014)*	*(0.013)*
		(0.015)	*(0.016)*	*Having the euro is a good thing for my country (Ref. is a bad thing)*		*0.052****	*0.037****
Frequently interested on EU political matters (Ref. Occasionally)		*0.041****	*0.048****			*(0.013)*	*(0.012)*
		(0.011)	*(0.013)*	*Agrees that need to save more today in order to prepare*			*0.025**
Extreme left/right placement (Ref. Central, central right and central left)		*0.021*	*0.029***	*public finances for the ageing of the population*			*(0.013)*
		(0.013)	*(0.014)*				*0.117****
Tend not to trust the media		*-0.026***	*-0.009*	*Agrees there is need for significant reforms to improve the*			*(0.013)*
		(0.011)	*(0.012)*	*performance of our economy*			
Tend not to trust political parties		*-0.033***	*-0.001*				
		(0.014)	*(0.014)*				
3. Personal View:							
Optimistic about the Future of the EU			*0.142****				
			(0.010)				
Had a hard time paying bills last year (Ref. Had never/ almost never)			*-0.016*				
			(0.014)				
My interests are not taken into account			*-0.045****				
			(0.014)				
Constant	*0.574****	*0.567****	*0.475****	*Constant*	*0.585****	*0.600****	*0.500****
	(0.015)	*(0.023)*	*(0.029)*		*(0.013)*	*(0.020)*	*(0.025)*
Observations	*26,366*	*20,078*	*12,828*	*Observations*	*17,336*	*12,446*	*11,945*
R-squared	*0.015*	*0.103*	*0.093*	*R-squared*	*0.010*	*0.024*	*0.033*
Number of countries	*28*	*28*	*28*	*Number of countries*	*19*	*19*	*19*

Robust standard errors in parentheses **** p<0.01, ** p<0.05, * p<0.1*

Source: Author's calculation using the Eurobarometer

However, the strongest correlation on supporting more coordination is found among those who agree on the importance of reforms for their national economy to thrive. Most likely, individuals that wish for reforms to improve their national economies consider more coordination in the EA to be in line with that goal.

Table 4-Between Effects

VARIABLES	More decisions at EU level	More coordination among EA government
GDP per capita as percentage of the whole EU	-0.109***	-0.088
	(0.034)	(0.054)
Average Unemployment Rate (2013-2018)	0.019***	0.015**
	(0.005)	(0.006)
Exports as a percentage of GDP (2018)	0.002***	0.002*
	(0.001)	(0.001)
Population as percentage of the whole EU (2018)	0.010**	0.009
	(0.004)	(0.006)
Constant	-0.232***	-0.150
	(0.081)	(0.106)
Observations	28	19
R-squared	0.474	0.348

*Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1*

Source: Author's calculation using Eurobarometer and Eurostat

c. Country-level effects

The second step regressions (our estimations on countries' fixed effects) are shown in Table 4. We notice that citizens in countries in worse economic shape (higher unemployment rate) ask for more integration, both via risk reduction and mitigation, as they may blame national policies for the negative economic outcomes. Larger countries in terms of population are keener on risk-sharing, but this effect is counterbalanced by their economic development since countries with a larger GDP are more likely to reject it. The amount of exports as a percentage of GDP is used here as a proxy for the openness of the economy. The degree of openness is positively correlated with high support for both coordination and risk-sharing: more open economies may have a higher perception of the benefits of the EU, thus calling for both types of integration.

6. Conclusion

The present research argues that, even after years of integration process, real convergence in Europe has only partially materialized, with a particularly poor result within the Eurozone. We also compute that, though business cycles within the EMU became more synchronized over the

last years, their amplitude still differs substantially. As a result, not only idiosyncratic shocks still arise, but the ECB itself cannot set optimum one-fits-all interest rates that could efficiently counter these downturns. Countries of the EMU suffer from severe consequences since, besides being subject to inflexible fiscal rules that prevent them from spending during a crisis, they cannot rely on independent monetary or exchange rate as options of counter-cyclical policies.

In this context, many proposals have been put forward to improve the EMU functioning, including the idea of a Eurozone budget with a stabilization function. Although many academics have been pointing to the importance of having further risk-sharing across the EMU, this concept did not meet a consensus among politicians. In turn, this set up reflects the veiled heterogeneity of opinions regarding the matter across European citizens. As public opinion has been proven to play a key role in shaping politicians' stances (Hakhverdian, 2012), we intended to explore the societal behaviour regarding further European integration.

On this regard, we find several results. Although socioeconomic status does play a role, political values and subjective perspectives are a key determinant of support for EU integration. Having more decisions at the EU level is seen as beneficial from individuals who are frequently interested on EU political matters, optimistic about the future of the EU and feel like their interests are taken into account by current institutions. In addition, having more coordination among the Eurozone Member States is an alternative supported by individuals that approve the Euro, agree with the importance of governments saving more today in order to prepare for the ageing of the population, and think that significant reforms are needed to improve the performance of the economy of their countries.

Differences across countries also play a part, with richer countries generally fearing that they will only lose (through contributing more financially) if further risk-sharing occurs before advances on risk-mitigation take place. Instead, countries that depend more on international

trade are keener to take steps forward both at risk-sharing and risk-reduction, since more open economies may have a more positive opinion of the benefits of the EU.

On the one hand, one could argue that citizens' support is not very mutable since personal political characteristics do not vary much throughout adulthood. However, citizens may alter their support for integration depending on factors that change over time. Firstly, in order to increase support for further risk-sharing, EU policymakers should focus on incentivising citizens interest in political matters (political mobilization). Secondly, overall perceptions regarding the Euro and the EU, including how optimist citizens feel for the future and how much they feel their interests are taken into account, should still be the highest concern of policymakers who want to advance on EU integration. The evidence of the frustration from citizens who are, or feel, disadvantaged by European-wide policies implies that the success of further integration goes hand in hand with how well regulators accommodate citizens that feel losers of current EU *status quo*. Reforms in the EU and in the EMU are generally promoted on the ground of macroeconomic prosperity (e.g. GDP growth, price stability, international trade opportunities). However, microeconomic consequences should also be considered as they drive public opinion against or in favour of further integration.

Nevertheless, some limitations of our approach are worth mentioning. Firstly, the questions used as our dependent variables can leave a margin for interpretation, meaning that the opinions measured here may not fully capture the factual judgment regarding risk-sharing and risk-reduction. Secondly, it might be questioned that, although useful to forecast EU and EMU policy paths, public opinion may have no direct causal influence on integration. Indeed, one may argue that public opinion is not only influencing policymakers, but is also influenced by them, thus creating a positive relationship between public policies and public opinion on their regard. Instead, detailed time-series data that would allow us to model, specifically, how

responsive policymakers are with respect to public opinion could result in better isolation of the influence that public opinion has on integration policies.

Finally, the lack of a time dimension in the data prevents us to understand how consistent and stable attitudes toward European integration are. Opinions fundamentally vary across time and are characterized by a large degree of complexity and dynamism. In addition, the character and competencies of the EU itself have been evolving throughout time and should also be taken into account. Conversely, the Eurobarometer only allows us to capture temporal and contextual perceptions toward integration. Future researches should, therefore, explore the variance of attitudes across time among individuals and Member States, instead of measuring if the public is on average in support of current features. This question must, however, wait until more robust data at the EU level is available.

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